Bank-Dependence and Financial Constraints on Investment: Evidence from the Corporate Bond Market Paralysis in Japan

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Abstract

This paper investigates the causal relationship between firms' bank dependency and financial constraints by utilizing the 2008 financial crisis as a natural experiment. Since the Japanese banking sector remained healthy while the corporate bond markets were paralyzed, firms that had reduced bank dependency were hit heavily by the shock. Concretely, I examine whether firms that had a large amount of maturing corporate bonds in 2008 were financially constrained by comparing the changes in investment expenditures and borrowing conditions with those of bank-dependent firms. The main empirical results show that 1) these firms did not cut investment expenditures compared to bank-dependent firms; 2) instead, higher increments in bank loans for them were observed; and 3) firms that kept relatively close bank-firm relationships among them had more access to bank loans with low borrowing costs, but significant differences in investment expenditures were not found. These findings imply that the cost to reduce bank dependency exists, but is not so high for Japanese listed firms.

Key words: Financial crisis, Capital investment, Bank-firm relationship
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